



**UNIVERSITY FACILITIES, INC.
HAMMOND, LOUISIANA**

FINANCIAL STATEMENTS

June 30, 2007

with

INDEPENDENT AUDITORS' REPORT

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 10/17/07

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Independent Auditors' Report

The Board of Directors
University Facilities, Inc.
Hammond, Louisiana

We have audited the accompanying statement of financial position of University Facilities, Inc. (the Organization) as of June 30, 2007, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of University Facilities, Inc. as of June 30, 2007, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Horton, Lee, Burnett, Peacock,
Cleveland & Grainger, P.C.*

October 3, 2007

**UNIVERSITY FACILITIES, INC.
HAMMOND, LOUISIANA**

**STATEMENT OF FINANCIAL POSITION
June 30, 2007**

ASSETS

Current assets:	
Cash	\$ 172,647
Investment - bond reserves	3,176,374
Investment - capital reserves	14,160,672
Accounts receivable - other	2,487,101
Total current assets	<u>19,996,794</u>
Restricted for debt service:	
Investment - debt service reserves	<u>5,753,714</u>
Property and equipment, net	<u>52,621,174</u>
Other assets:	
Construction in progress	3,575,653
Debt issuance costs, net	3,669,717
Total other assets	<u>7,245,370</u>
	<u>\$ 85,617,052</u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable and other accrued expenses	\$ 144,070
Construction cost payable	3,644,505
Interest payable	1,307,058
Current maturities of long term debt	1,044,875
Total current liabilities	<u>6,140,508</u>
Long-term liabilities:	
Tax-exempt bonds payable, net	83,603,370
Bond premium, net	373,789
Total long-term liabilities	<u>83,977,159</u>
Net assets, unrestricted	<u>(4,500,615)</u>
	<u>\$ 85,617,052</u>

See accompanying notes.

**UNIVERSITY FACILITIES, INC.
HAMMOND, LOUISIANA**

**STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2007**

Revenues	
Housing rental income	\$ 8,435,281
Other rental income	2,162,952
Interest income	769,765
Other income	398,484
Total revenues	<u>11,766,482</u>
Expenses	
Advertising and promotion	4,566
Amortization expense	113,451
Bad debt	34,638
Depreciation expense	2,013,056
Development and start up costs	3,891
Grounds/building maintenance	508,458
Investing expense	17,107
Insurance	533,701
Interest expense	3,370,808
Interior unit	2,207
Management fees	9,167
Payroll expenses	1,350,395
Professional fees	38,804
Rental	378,719
Telephone	774,751
Travel	6,761
Trustee fees	9,825
Utilities	1,419,107
Total expenses	<u>10,589,412</u>
Change in net assets	1,177,070
Net assets	
Beginning of the year	<u>(5,677,685)</u>
End of the year	<u>\$ (4,500,615)</u>

See accompanying notes.

**UNIVERSITY FACILITIES, INC.
HAMMOND, LOUISIANA**

**STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2007**

Operating activities	
Change in net assets	\$ 1,177,070
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation and amortization	2,126,507
Amortization of bond premium	(57,434)
Decrease in accounts receivable	745,402
Increase in accounts receivable - other	(2,003,378)
Decrease in prepaid insurance	89,217
Decrease in accounts payable and other accrued expenses	(808,933)
Decrease in unearned rental revenue	(1,000)
Increase in accrued interest payable	97,495
Total adjustments	<u>187,876</u>
Net cash provided by (used in) operating activities	<u>1,364,946</u>
Investing activities	
Purchase of equipment	(387,220)
Net purchases of short term investments	(7,619,469)
Payments for construction in progress	(605,055)
Net cash provided by (used in) investing activities	<u>(8,611,744)</u>
Financing activities	
Increase (decrease) in cash overdraft	(302,962)
Proceeds from bond issuance	7,513,976
Payments of debt issuance costs	(154,426)
Repayment of note payable	(225,000)
Net cash provided by (used in) financing activities	<u>6,831,588</u>
Net increase (decrease) in cash and cash equivalents	(415,210)
Cash and cash equivalents	
Beginning of year	<u>587,857</u>
End of year	<u>\$ 172,647</u>

See accompanying notes.

**UNIVERSITY FACILITIES, INC.
HAMMOND, LOUISIANA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 1 – FORMATION, OWNERSHIP AND BUSINESS OF THE ORGANIZATION

The Organization

University Facilities, Inc. (the "Organization") is a private nonprofit organization and is formed to promote, assist, and benefit the mission of Southeastern Louisiana University (the "University") through the acquisition, construction, development, management, leasing or otherwise assisting in the acquisition, construction, development, management, leasing of student housing or other facilities on the campus of Southeastern Louisiana University. The facilities of the Organization are currently operated under the management of the University.

The Organization is a nonprofit organization as described in Section 501(c) (3) of the Internal Revenue Code and is exempt from federal and state income taxes.

Series 2004 Bonds

In 2004, the Organization participated in bond issuance by borrowing money from The Louisiana Local Government Environmental Facilities and Community Development Authority (the "Issuer") who issued \$76,910,000 in revenue bonds (Series 2004) which will be payable solely from the revenues of the Organization. The revenue bonds were issued pursuant to a Trust Indenture dated August 1, 2004, between the Issuer and the Bond Trustee. The proceeds of the primarily tax-exempt bonds were loaned to the Organization pursuant to a Loan Agreement dated as of August 1, 2004 between the Issuer and the Organization and were used to construct the facilities. To secure the Organization's obligations to repay the moneys loaned, the Organization executed a Mortgage, Assignment of Leases and Security Agreement. The Organization granted to the Trustee, first mortgage lien on its leasehold interest in the property, equipment, furnishings and other intangible property included in the facilities and first priority security interest in the leases and subleases affecting the facilities, including, without limitation, the facilities lease agreement and all revenue rentals, and other sums due or becoming due under the leases. The underlying property on which the housing project is located is leased to the Organization by a Ground and Building Lease Agreement. The facilities are leased to the Board of Supervisors for the University of Louisiana System (the "Board") under a facilities lease agreement. At such time as the financing for the Organization is paid in full, the obligation is cancelled and the interest in the facility and the underlying property is conveyed to the University.

**UNIVERSITY FACILITIES, INC.
HAMMOND, LOUISIANA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 1 – FORMATION, OWNERSHIP AND BUSINESS OF THE ORGANIZATION

Series 2007 Bonds

In 2007, the Organization participated in a second bond issuance with The Louisiana Local Government Environmental Facilities and Community Development Authority (the "Issuer") who issued \$8,035,000 in revenue bonds (Series 2007). The proceeds from the issuance of the Series 2007 Revenue bonds will be used to finance a portion of the cost of construction of a new intermodal parking facility ("Phase Four Facilities") on the campus of Southeastern Louisiana University. The revenue bonds were issued pursuant to a Trust Indenture dated March 1, 2007, between the Issuer and the Bond Trustee. The proceeds of the primarily tax-exempt bonds were loaned to the Organization pursuant to a Loan Agreement dated as of March 1, 2007 between the Issuer and the Organization and were used to construct the facilities. To secure the Organization's obligations to repay the moneys loaned, the Organization executed an Assignment of Agreements and Documents. The Organization granted to the Trustee, first priority security interest in the leases and subleases affecting the Phase Four Facilities, including, without limitation, the Phase Four Facilities Lease and all revenue rentals, and other sums due or becoming due under the leases. The underlying property on which the Phase Four Facilities and the Stadium Expansion is located is leased to the Organization by the Board pursuant to the First Amendment to Ground and Building Lease Agreement dated March 1, 2007. The Phase Four Facilities will be leased back to the Board pursuant to the First Amendment to Agreement to Lease with Option to Purchase, as amended and dated March 1, 2007. At such time as the financing for the Phase Four Facilities is paid in full, the obligation is cancelled and the interest in the Intermodal facility and the underlying property is conveyed to the University.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The accompanying financial statements are prepared using the accrual basis of accounting. Revenues are recognized when earned; expenses and costs are recognized when incurred.

Fair values of financial instruments

The following methods and assumptions were used by the Organization in estimating its fair value disclosures for financial instruments:

Cash – The carrying amounts reported in the statement of financial position approximate fair value because of the short maturities of those instruments.

Investment securities

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

**UNIVERSITY FACILITIES, INC.
HAMMOND, LOUISIANA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tenant accounts receivable

The University maintains the tenant accounts receivable and allowance for doubtful accounts for the Organization. The University collects rents from students and remits the estimated revenues to the Organization based on occupancy. Uncollectible accounts are absorbed by the University and are not recognized by the Organization. The University bears all risks of the collections of the tenant accounts. Based on these factors, there is no tenant accounts receivable outstanding at June 30, 2007.

Unrestricted net assets

None of the Organization's net assets are subject to donor-imposed restrictions. Accordingly, all net assets are accounted for as unrestricted net assets in accordance with Statement of Financial Accounting Standards No. 117, *Financial Statements for Not-For-Profit Organizations*.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates; however, in the opinion of management such differences will not be material to the financial statements.

Advertising

Advertising costs are expensed as incurred. Advertising costs totaled \$4,566 for the year ended June 30, 2007.

Revenue recognition

The Organization generally leases residential beds based on annual lease agreements. Tenants are billed at the beginning of the semester for the semester's portion of the lease and the Organization recognizes revenue at that time.

Cash and cash equivalents

For the purposes of the Statement of Cash Flows, the Organization considers all unrestricted cash on hand and unrestricted temporary investments purchased with an initial maturity of three months or less, except for Treasury bills, commercial paper, and other short-term financial instruments included in the Organization's investment account which are primarily held for investment in long-term assets, to be cash and cash equivalents. The carrying amount of cash and cash equivalents approximates fair value due to the short maturity of these financial instruments.

**UNIVERSITY FACILITIES, INC.
HAMMOND, LOUISIANA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and equipment

The Organization capitalized all property and equipment acquisitions in excess of \$5,000. Property and equipment are capitalized at cost and are being depreciated over the estimated useful life of the respective asset. Maintenance and repairs are charged to expense as incurred while additions and betterments are capitalized. Depreciation is computed using the straight-line method with estimated useful lives of forty years for buildings and seven years for furniture and equipment.

Property and equipment is comprised of the following at June 30, 2007:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Capital assets			
Building and building improvements	\$ 58,627,152	\$ 8,800,291	\$ 49,826,861
Land improvements	2,791,647	-	2,791,647
Furniture and equipment	58,637	58,637	-
Portable building	5,332	2,666	2,666
	<u>\$ 61,482,768</u>	<u>\$ 8,861,594</u>	<u>\$ 52,621,174</u>

Depreciation expense was \$2,013,056 for the year ended June 30, 2007.

Construction in progress

Construction in progress consists of development costs, direct and indirect construction costs and capitalized interest. The costs are accounted for as construction in progress until such time as the project is complete and the assets are placed into service. The assets are then classified as property and equipment and depreciated accordingly.

Capitalized interest is recorded based upon interest expense incurred on the Organization's borrowings, offset by the investment income earned on the related bond proceeds. The net amount of capitalized interest at June 30, 2007 resulted in net investment income capitalized in the amount of \$3,880.

Cash paid for interest, for purposes of the statement of cash flows, is disclosed net of the amount capitalized for the year ended June 30, 2007.

During the year ended June 30, 2006, the Organization entered into an agreement with the University to construct an Intermodal Parking Facility/Stadium Project. In March 2007, the Organization secured financing and began construction of the facility which will be leased back to the University. The revenues generated by this facility will be used to pay for the financing of the project. Construction in progress related to this project amounted to \$3,575,653 for the year ended June 30, 2007.

**UNIVERSITY FACILITIES, INC.
HAMMOND, LOUISIANA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Debt issuance costs

Costs incurred in connection with the issuance of the bonds are amortized using the straight-line method over the lives of the associated bonds. These costs are shown net of accumulated amortization of \$337,626 at June 30, 2007. A portion of the amortization of these costs is reflected as part of the overall construction costs of the Organization, until the related assets are placed in service.

NOTE 3 - CONCENTRATION OF CREDIT RISK

The Organization maintains cash balances with creditworthy, high quality, financial institutions located in several states. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$100,000. Periodically, the Organization maintains deposits in excess of federally insured limits. At June 30, 2007, the Organization's uninsured demand and time deposit balances total \$1,045. Management monitors the soundness of these financial institutions and feels the Organization's risk is not significant. The balances in investments - bond reserves are invested according to bond documents, which work to mitigate the credit risk of those investments.

NOTE 4 - INVESTMENTS-BOND RESERVES AND CAPITAL RESERVES

The funds held by the Bond Trustees consist of cash, money market investments, securities that are primarily issued by the U.S. Government and various other financial instruments. These short-term investments are primarily stated at cost, which approximates market.

Under the terms of the various Trust Indentures or similar documents, various funds such as Project, Capitalized Interest, Replacement, and Debt Service must be established and maintained for each of the projects. These documents govern the types of investments and requirements for collateralization.

The bond indentures contain significant limitations and restrictions on annual debt service requirements, maintenance of and flow of monies through various restricted accounts, minimum amounts to be maintained in various sinking funds, and minimum bond coverage's.

Investment income, to the extent it exceeds capitalized interest for the respective project, is reported as a change in net assets. Information necessary to report the proceeds of sales and purchases of investments for the statement of cash flows is not meaningful due to the nature of the investments and the large volume of transactions.

**UNIVERSITY FACILITIES, INC.
HAMMOND, LOUISIANA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 4 – INVESTMENTS-BOND RESERVES AND CAPITAL RESERVES (CONTINUED)

Investments-reserves consist of the following at June 30, 2007:

	<u>Cost</u>	<u>Fair value</u>
Investment - bond reserves		
Money Market Funds	\$ <u>3,176,374</u>	\$ <u>3,176,374</u>
Investment - capital reserves		
Hypo Real Estate Bank Int'l Fund 2.17%	3,995,315	3,995,315
Money Market Funds	<u>10,165,357</u>	<u>10,165,357</u>
	\$ <u>14,160,672</u>	\$ <u>14,160,672</u>
Investment - debt service reserves		
XL Asset Funding Comp 4.5%	5,265,838	5,265,838
Money Market Funds	<u>487,876</u>	<u>487,876</u>
	\$ <u>5,753,714</u>	\$ <u>5,753,714</u>

NOTE 5 - ACCOUNTS RECEIVABLE - OTHER

Accounts receivable - other consist of the following at June 30, 2007:

Due from University	\$ 2,275,416
Laundry commission	20,039
Interest receivable	183,722
Miscellaneous receivable	<u>7,924</u>
	\$ <u>2,487,101</u>

NOTE 6 - GROUND LEASE

Pursuant to the First Amendment to Ground and Buildings Lease Agreement between the Organization and the Board, the Organization (the Lessee) will lease the land on which the housing facilities and the intermodal facilities are located from the Board of Supervisors of the University of Louisiana System (the Lessor), for the term beginning March 1, 2007 through August 1, 2047. The lease requires \$1 annually in advance.

**UNIVERSITY FACILITIES, INC.
HAMMOND, LOUISIANA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 7 – FACILITIES LEASE

Under the Agreement to Lease with Option to Purchase dated as of August 1, 2004, as amended by the First Amendment to the Agreement to Lease with Option to Purchase, dated March 1, 2007 (the "Facilities Lease"), the Organization will lease certain facilities to the Board for a term of forty (40) years. The rental payment under the Facilities Lease will be in the form of a guarantee by the Board and will be equal to any "shortfall" in the payment of the principal and interest due on the Series 2004 and the Series 2007 Bonds, the amounts required to be deposited in the various funds or accounts established under the Trust Indentures, and all other expenses arising out of or relating to the ownership or operation of the certain facilities or the issuance of the Series 2004 and Series 2007 Bonds. The Organization's rights under the Facilities Lease will be assigned to the Trustee as security for the payment of the Series 2004 and Series 2007 Bonds.

NOTE 8 – LONG-TERM DEBT

Bonds payable

On August 13, 2004, the Louisiana Local Government Environmental Facilities and Community Development Authority (the Issuer) issued \$76,910,000 of taxable and non-taxable Series 2004 Bonds pursuant to an Indenture of Trust between the Issuer and The Bank of New York Trust Company, N.A. (the Trustee). The issuance of both tax-exempt and taxable bonds was due to the percentage limitation on the amount of tax-exempt bond proceeds that can be used to pay transaction expenses and still maintain a tax-exempt status.

On March 14, 2007, the Louisiana Local Government Environmental Facilities and Community Development Authority (the Issuer) issued \$8,035,000 of non-taxable Series 2007 Bonds pursuant to an Indenture of Trust between the Issuer and The Bank of New York Trust Company, N.A. (the Trustee).

Pursuant to loan agreements between the Issuer and the Organization, the Issuer has loaned the proceeds of the Series 2004 and the Series 2007 Bonds to the Organization. The proceeds the Series 2004 Bonds financed the construction of a new residential facility and renovation of an existing student housing facility owned by the Organization, provided working capital for marketing and operation the new and renovated facilities, funded interest on the bonds during the construction and renovation period, funded a Debt Service Reserve Fund, and paid the cost of issuing the bonds. The proceeds the Series 2007 Bonds will finance the construction of a new intermodal parking facility, fund a Debt Service Reserve Fund, and pay the cost of issuing the bonds.

Pursuant to security agreements, leasehold deeds to secure debt, assignment of contract documents and assignment of rents between the Organization and the Trustees, the Organization grants to the Trustee first lien security title in the leasehold estates created by the ground leases and a security interest in the revenues and accounts generated by the operations of the Organization. The Organization also assigned to the Trustee its rights under various agreements and contracts. Pursuant to the Indentures, the Issuer assigned all of their interest in the loan agreements to the Trustee to secure the Bonds.

**UNIVERSITY FACILITIES, INC.
HAMMOND, LOUISIANA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 8 – LONG-TERM DEBT (CONTINUED)

Long-term debt consists of the following at June 30, 2007:

\$5,545,000 tax-exempt term bonds payable dated March 14, 2007; due at various intervals through February 1, 2031; payable in semi-annual installments of interest and annual installments of principal; average coupon rate of 4.2029%; secured by leasehold deed and assignment of rents. \$ 5,545,000

\$2,490,000 tax-exempt term bonds payable dated March 14, 2007; due at various intervals through February 1, 2037; payable in semi-annual installments of interest and annual installments of principal; average coupon rate of 4.3750%; secured by leasehold deed and assignment of rents. 2,490,000

\$60,985,000 tax-exempt term bonds payable dated August 1, 2004; due at various intervals through August 1, 2031; payable in semi-annual installments of interest and annual installments of principal; average coupon rate of 4.0000%; secured by leasehold deed and assignment of rents. 60,985,000

\$15,000,000 tax-exempt term bonds payable dated August 1, 2004; due at various intervals through August 1, 2034; payable in semi-annual installments of interest and annual installments of principal; average coupon rate of 4.8098%; secured by leasehold deed and assignment of rents. 15,000,000

\$925,000 taxable term bonds payable dated August 1, 2004; due at various intervals through August 1, 2007; payable in semi-annual installments of interest and annual installments of principal; average coupon rate of 3.4118%; secured by leasehold deed and assignment of rents. 700,000

Less unamortized discount on bonds payable	(71,755)	84,648,245
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Less current maturities	(1,044,875)	83,603,370
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\$ 83,603,370

**UNIVERSITY FACILITIES, INC.
HAMMOND, LOUISIANA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 8 – LONG-TERM DEBT (CONTINUED)

Net unamortized discount

The net bond discount recognized upon the issuance of the bonds is being amortized over the life of the bonds using the effective interest method.

Maturities of long-term debt at June 30, 2007 are as follows:

	<u>Series 2004 Tax-exempt bonds payable</u>	<u>Series 2004 Taxable bonds payable</u>	<u>Series 2007 Tax-exempt bonds payable</u>
2008	\$ 180,000	\$ 700,000	\$ 165,000
2009	1,015,000	-	145,000
2010	1,170,000	-	150,000
2011	1,325,000	-	155,000
2012	1,500,000	-	160,000
2013 and thereafter	<u>70,795,000</u>	<u>-</u>	<u>7,260,000</u>
Year ending June 30	<u>\$ 75,985,000</u>	<u>\$ 700,000</u>	<u>\$ 8,035,000</u>

NOTE 9 – BOND PREMIUM PAYABLE

The bond premium received upon the issuance of the 2004 bonds is being amortized over the life of the bonds using the effective interest method. Annual amortization will be charged against "Interest Expense". The bond premium is shown net of accumulated amortization of \$140,588.

NOTE 10 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Carrying amounts of the Foundation's financial instruments including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair value due to their short maturities.

NOTE 11 – CASH FLOW INFORMATION

The following are supplemental disclosures of cash flow information:

Cash paid for:

Interest	\$ <u>3,439,313</u>
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